The impact of the Local Housing Allowance freeze in GM

January, 2023

Introduction

Local Housing Allowance (LHA) rates have been frozen since April 2020 level, during which time private rents have experienced unprecedented growth. This note sets out the findings of new research by Dataloft for the Greater Manchester Combined Authority (GMCA) looking at what the impact of the freeze has been on affordability for low-income private tenants, many of whom are unable to access social housing. The research found that only 4% of new tenancies in the six months to 31st October 2022 were affordable to people on LHA and an uplift of between 19% and 46% depending on area and property size would be needed to bring LHA up to the 30th percentile. This note is structured as follows:

1. Background

What is Local Housing Allowance?

Local Housing Allowance (LHA) rates are local caps on the total amount that private renting households can claim from the welfare system to help them pay their rent – either through Housing Benefit or the housing element of Universal Credit. The rates are set by central government and vary by area and by size of property.[1] They are currently frozen at their April 2020 levels. When they are not frozen, the rates are updated annually and are supposed to allow private renting

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[1] Rates apply to Broad Rental Market Areas (BRMAs) and do not reflect borough boundaries. Data on rents from across each BRMA are collected by the Valuation Office Agency, who then calculate the 30th percentile rent is from their dataset for each property size. BRMAs have been criticised for being too large and not genuinely reflecting rental markets

households to afford the rent on a home of the right size in the cheapest 30% of the market.

Households affected by the rates include almost everyone entitled to welfare support living in private rented housing (a small minority of accommodation is exempt from LHA). The affected households includes low income pensioners, low income people in-work, people who are unable to work and people who are looking for work.

Figure 1: North West annual % private rent growth (new and existing tenancies), Apr 2008-Oct 2022[2]

In the time since LHA rates were frozen in April 2020, private rents in Greater Manchester (GM) have risen faster than ever on record. ONS statistics show rental growth for all tenancies at an unprecedented 4.5% in the North West in October 2022. Rents on new tenancies are rising much faster, with Dataloft reporting new rents up 12% across GM.[3] This disparity between frozen welfare support on the one hand and spiralling rents on the other has reduced the number of properties affordable within LHA. In turn, this has pushed up the number of low-income people being forced to use other income (e.g. low pay or subsistence benefits) to pay their rent. As of August 2022, 56% of private renting households on Universal Credit housing element in GM were paying a rent higher than LHA. For new claims in August 2022, more than 65% were paying above LHA.[4] The number of claimants
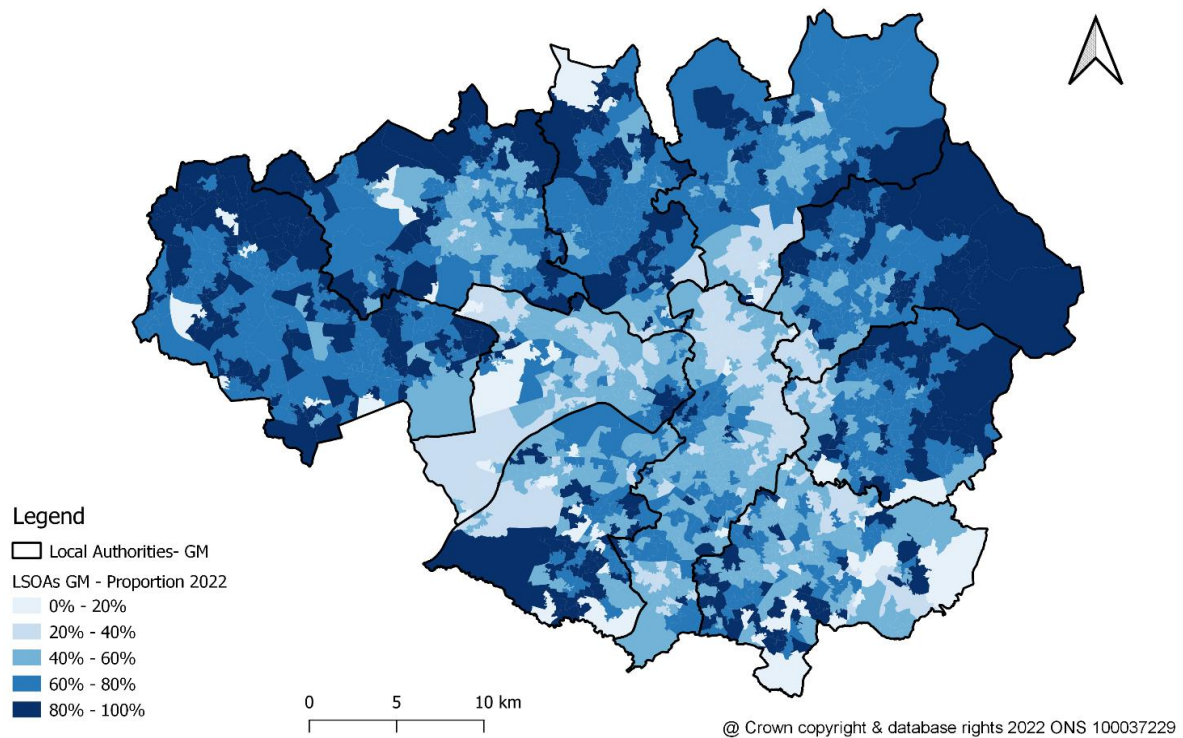
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[2] ONS, Index of Private Rental Housing Prices, October 2022
[3] ONS, Index of Private Rental Housing Prices, October 2022; Dataloft analysis for GMCA
[4] DWP, Stat-Xplore, Households on Universal Credit dataset, August 2022

has also significantly increased since rates were frozen. Altogether, this has contributed to huge pressure on the homelessness system.

Figure 2: % of private renting Universal Credit housing element claimants where LHA did not cover their rent, August 2022, by lower super output area[5]

Legend
☐ Local Authorities- GM
LSOAs GM - Proportion 2022
☐ 0% - 20%
☐ 20% - 40%
☐ 40% - 60%
☐ 60% - 80%
☐ 80% - 100%

0   5   10 km

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2. Summary of research findings

To understand the impact of the freeze on how many properties are now affordable within LHA for someone looking for a new home, GMCA commissioned Dataloft to compare rates with their dataset of new private tenancies in GM over the six months to 31st October 2022. Dataloft source their data on private rents from tenant referencing agencies, meaning that they hold data on achieved rather than advertised rents, and estimate their data covers 40% of the market.

Overall, the research found only 4% of those new tenancies were within LHA rates. This contrasts with the 30% of properties that should be affordable within LHA rates

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[5] Ibid.

when they aren't frozen. It is also far smaller than the 30% of private renting households in the North West that rely on welfare housing support.[6]

Figure 3: New tenancies in GM in six months to 31/10/2022 at or below LHA according to Dataloft research, compared with tenants who need a home within LHA[7]
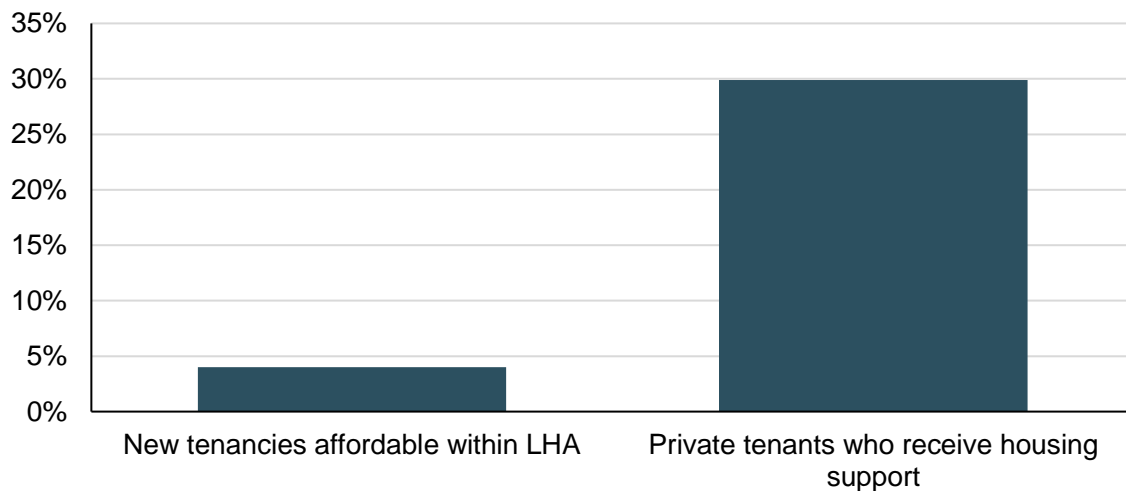
Dataloft's research shows the geographic distribution of the most and least affordable properties for people looking for a new tenancy within LHA.

Significant parts of GM now appear to be all but off-limits to tenants paying rent with welfare support. While this includes some of the traditionally more expensive areas in the conurbation, it also includes places where rents are generally lower but where LHA has not kept up with rental growth. For example, the parts of the Oldham & Rochdale, Tameside & Glossop and Wigan BRMAs that are inside the GM boundary all had 1% or less new tenancies within LHA rates in the six months to 31st October 2022.

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[6] DLUHC, English Housing Survey, 2020-21: private rented sector, Annex Table 2.9
[7] Dataloft Rental Market Analytics for GMCA; DLUHC, English Housing Survey, 2020-21: private rented sector, Annex Table 2.9

Figure 4: Dataloft comparison of new tenancies in GM with LHA in six months to 31/10/2022[8]
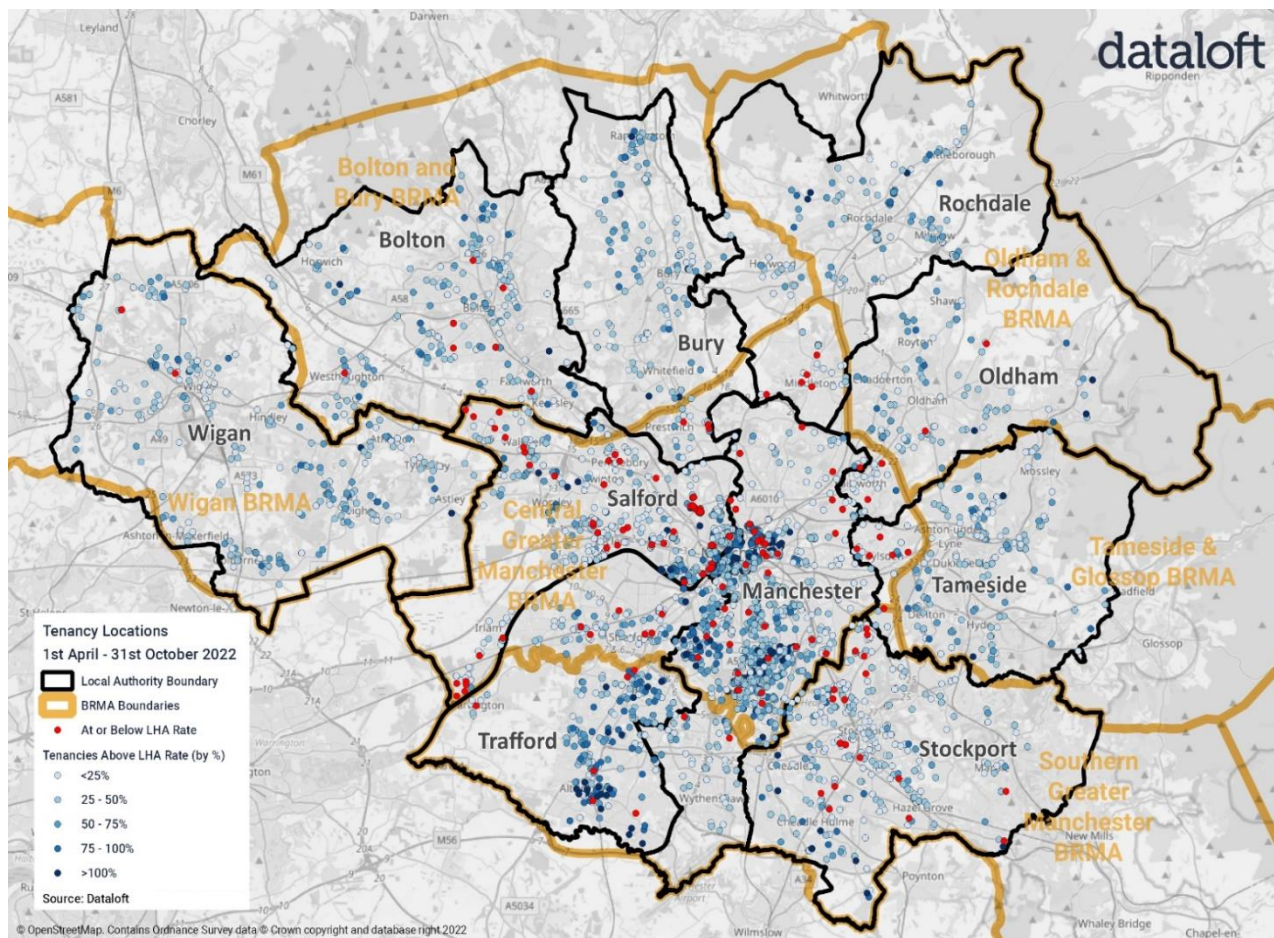

Table 1: number new tenancies affordable within LHA in six months to 31/10/2022 by BRMA, according to Dataloft research[9]

	1 bed	2 bed	3 bed	4+bed	Total
Bolton and Bury	0	5	2	1	8
Central GM	47	82	18	20	167
Oldham & Rochdale	0	1	1	0	2
Southern GM	2	10	4	13	29
Tameside & Glossop	0	0	0	0	0
Wigan	0	0	2	0	2
GM total	49	98	27	34	208

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[8] Dataloft Rental Market Analytics for GMCA
[9] Dataloft Rental Market Analytics for GMCA; DLUHC, English Housing Survey, 2020-21: private rented sector, Annex Table 2.9

Table 2: % new tenancies affordable within LHA in six months to 31/10/2022 by BRMA, according to Dataloft research[10]

	1 bed	2 bed	3 bed	4+bed	Total
Bolton and Bury	0%	2%	2%	2%	2%
Central GM	5%	5%	3%	6%	5%
Oldham & Rochdale	0%	1%	1%	0%	1%
Southern GM	1%	3%	2%	12%	4%
Tameside & Glossop	0%	0%	0%	0%	0%
Wigan	0%	0%	2%	0%	1%
GM total	3%	4%	2%	6%	4%

The LHA rates for these traditionally lower value areas rose only a small amount last time they were reset in April 2020. This may suggest that there are issues with the way that LHA rates are calculated even when they are unfrozen, potentially supporting past concerns that the Valuation Office Agency dataset they are based on oversamples cheaper properties.[11]

Table 3: number new tenancies affordable within LHA in six months to 31/10/2022 by local authority, according to Dataloft research[12]

	1 bed	2 bed	3 bed	4+bed	Total
Bolton	0	5	2	1	8
Bury	2	0	0	2	4
Manchester	15	19	7	7	48
Oldham	1	1	2		4
Rochdale	4	1	1		6
Salford	19	59	10	9	97
Stockport	2	6	3	9	20
Tameside	2	4	0		6
Trafford	4	3	0	6	13
Wigan	0	0	2		2
GM total	49	98	27	34	208

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[10] Dataloft Rental Market Analytics for GMCA; DLUHC, English Housing Survey, 2020-21: private rented sector, Annex Table 2.9

[11] Neville de Souza, Steph Astley and Chris Gray, Methodological review of the VOA's Private Rental Market Statistics, 2016

[12] Dataloft Rental Market Analytics for GMCA

Table 4: % new tenancies affordable within LHA in six months to 31/10/2022 by local authority, according to Dataloft research[13]

	1 bed	2 bed	3 bed	4+bed	Total
Bolton	0%	3%	3%	5%	2%
Bury	5%	0%	0%	9%	2%
Manchester	3%	2%	2%	4%	3%
Oldham	6%	1%	5%	0%	3%
Rochdale	13	1%	1%	0%	3%
Salford	4%	8%	4%	7%	6%
Stockport	2%	4%	4%	18%	5%
Tameside	5%	3%	0%	0%	3%
Trafford	4%	2%	0%	9%	3%
Wigan	0%	0%	2%	0%	1%
GM total	3%	4%	2%	6%	4%

Despite some areas being marginally more affordable between council areas, no local authority in GM had a total percentage of new tenancies within LHA of higher than 6% within the six-month period.

Just as concerning as the low percentages of properties are the absolute number of new properties within LHA rates recorded. Dataloft reported a 24% reduction in the number of new tenancies across GM over the six-month period analysed compared to the average over the previous four years.[14] This reduction reflects an increase in the number of private tenants who have been renewing tenancies nationwide, in part to avoid rent increases (as existing tenants tend to see lower rent rises). This means that tenants looking for property within LHA are looking for a low percentage of a smaller number of new tenancies.

To understand the size of the growing gap between LHA rates and where private rents in GM are today, Dataloft looked at how much LHA rates would need to rise to bring them back in line with the 30th percentile rent. This would make it so that the 30% cheapest properties would be affordable for low-income private renting households reliant on welfare support. Their research found that rates would need to rise 19%-46%, depending on location and property size, to bring LHA rates back in line with the 30th percentile rent.

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[13] Dataloft Rental Market Analytics for GMCA
[14] Ibid.

Table 5: Cash monthly uplift required to bring LHA in line with 30th percentile rents on new tenancies, by BRMA, according to Dataloft research[15]

	1 bed	2 bed	3 bed	4+bed
Bolton and Bury	£181.10	£171.30	£131.64	£152.19
Central GM	£151.65	£246.78	£276.98	£402.60
Oldham & Rochdale	£106.10	£199.98	£246.49	£301.88
Southern GM	£151.45	£151.78	£227.07	£250.02
Tameside & Glossop	£176.12	£197.85	£256.64	£252.07
Wigan	£125.95	£151.24	£179.36	£232.86

Table 6: % monthly uplift required to bring LHA in line with 30th percentile rents on new tenancies, by BRMA, according to Dataloft research[16]

	1 bed	2 bed	3 bed	4+bed
Bolton and Bury	46%	36%	22%	19%
Central GM	25%	38%	38%	42%
Oldham & Rochdale	27%	44%	45%	44%
Southern GM	29%	23%	30%	23%
Tameside & Glossop	44%	40%	43%	34%
Wigan	36%	34%	36%	35%

3. Conclusion

Despite announcing that most welfare benefits would be increased in line with inflation in the Autumn Statement 2022, HM Government stated that it would leave LHA rates frozen at their April 2020 levels. This will mean that life continues to get harder for private tenants who need support from the welfare system to help them pay their rent.

With a significant shortage of social rented homes, there are multiple consequences for people whose rent is not covered by LHA rates and have nowhere else to go but the private rented sector. More will need to top up the money they receive to pay the rent with other income, such as from subsistence benefits or low pay, meaning cutting back on the money they have for food, energy and other essentials. Others will be forced to choose a property that is too small for their needs to find a place with a cheaper rent. Still others will find it impossible to find anywhere affordable and become homeless. This will place additional pressure on the homelessness system,

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[15] Dataloft Rental Market Analytics for GMCA
[16] Dataloft Rental Market Analytics for GMCA

which is already under significant strain in GM with the number of households in temporary accommodation up by over 30% in just the last two years.[17]

Long-term, it is clear that significantly more social rented homes are needed to reduce the number of people living in private rented housing who need welfare support to pay their rent. However, this research by Dataloft's shows the pressing need in the immediate future for the government to reconsider its decision to keep LHA frozen.

4. Appendix: Methodology

The Dataloft Rental Market Analytics dataset uses rental data on new tenancies supplied by tenant referencing agencies. They estimate that the dataset has approximately 40% market coverage for new rentals nationwide, and it includes 5 million references over ten years.

The rents are achieved rents, rather than advertised rents, meaning that they take account of any change in rent agreed between landlord and tenant (e.g. the tenant agreeing to pay a higher rent due to competition between people viewing the property).

GMCA asked Dataloft to look at new tenancies within the dataset over a six month period to 31/10/2022 and determine:

- The total number of new tenancies in the dataset by BRMA and local authority
- The total number and percentage of new tenancies in the dataset at or below the relevant LHA rate by Broad Rental Market Area and local authority
- The average rent (median) for new lets by bedroom type, by BRMA and local authority
- A breakdown of the distribution of rents in each local authority and BMRA
- To map the results

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[17] DLUHC, Statutory Homelessness: Detailed LA-level tables, April-June 2020 & 2022, Table TA1